



HM TREASURY

Report under section 2 of the Loans to Ireland Act 2010:

1 October 2011 to 31 March 2012



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1 October 2011 to 31 March 2012

Presented to the House of Commons pursuant
to section 2 of the Loans to Ireland Act 2010

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Introduction

1.1 In December 2010, the UK agreed to provide a bilateral loan of £3.2 billion as part of a €67.5 billion international assistance package for Ireland. The loan is due to be disbursed in eight tranches of £403.37 million (each tranche is referred to in the Act as a “loan”). The Government expects the loan to be repaid in full. The Loans to Ireland Act, which was given Royal Assent on 21 December 2010, provides Parliamentary authorisation for the making of loans to Ireland.

1.2 The Government has agreed to provide a bilateral loan to Ireland because it is in the UK’s national interest that Ireland has a successful economy and a stable banking system. The links between our financial systems, particularly in Northern Ireland, mean that there is a strong economic case to provide financial assistance to Ireland. By being part of the international financial package, the UK will indirectly support the very many businesses across the UK that trade with Ireland.

1.3 The Treasury is required under section 2 (3) of the Loans to Ireland Act 2010 to report on:

- any payments made by the Treasury by way of an Irish loan in the period to which the report relates;
- any sums received by the Treasury in that period by way of repayment of principal or the payment of interest in respect of an Irish loan;
- the aggregate amount of principal and interest in respect of Irish loans which is outstanding at the end of that period;
- the remaining term of each Irish loan which is outstanding at the end of that period; and
- the original term of each Irish loan in respect of which a payment was made by the Treasury by way of an Irish loan in that period.

1.4 Section 2 (4) of the Loans to Ireland Act 2010 states that no report is required to be prepared or laid in relation to a period if:

- no payments within subsection (3)(a) are made in the period;
- no sums within subsection (3)(b) are received in the period; and
- no amount of principal or interest in respect of an Irish loan is outstanding at the end of the period.

1.5 This is the first occasion on which the Treasury has made such a report. In the period ending 31 March 2011 and the period 1 April 2011 to 30 September 2011, no amounts were paid or received; nor were there any amounts outstanding at the end of the period in relation to Irish loans. Consequently, under the provisions of section 2 (4) of the Loans to Ireland Act 2010, no report was required to be laid.

1.6 The Credit Facility Agreement for Ireland provided by The Commissioners of Her Majesty's Treasury is available at: http://www.parliament.uk/deposits/depositedpapers/2011/DEP2011-0015.pdf?bcsi_scan_F8D0BFE83951C3DA=0&bcsi_scan_filename=DEP2011-0015.pdf

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Report covering the period 1 October 2011 to 31 March 2012

2.1 This chapter constitutes the report required to be prepared under section 2 of the Act, and provides information about Irish loans in the period beginning with 1 October 2011 and ending on 31 March 2012.

2.2 The Treasury reports that in the six months to 31 March 2012, following successful completion of the relevant programme reviews by the IMF and the EU, the Treasury disbursed three tranches of the loan to Ireland with maturities of 7.5 years each, under the terms of the Credit Facility Agreement, deposited in the Library of the House on 10 January 2011.

2.3 Table 2.A discloses loan disbursements made to Ireland by the Treasury within the report period. The aggregate amount of principal outstanding at 31 March 2012 was £1,210,110,000.

Table 2.A: Loan Disbursements and Maturities

Disbursement Date	Loan amount	Loan Maturity Date	Remaining term as at 31 March 2012
14 October 2011	£403,370,000	15 April 2019	7 years and 15 days
30 January 2012	£403,370,000	30 July 2019	7 years and 4 months
28 March 2012	£403,370,000	30 September 2019	7 years and 6 months

2.4 Table 2.B discloses interest payments received by the Treasury in relation to Irish Loans within the report period. Accumulated interest on the disbursed tranches of the loan is payable by Ireland each year on 15 December and 15 June until the associated tranche is repaid. Under the existing interest rate, the Treasury received an interest payment of £3,210,221 on 15 December 2011, and accrued outstanding interest at 31 March 2012 was £8,768,112. Please refer to paragraph 2.5 below for information on retrospective amendments to the interest rate due to be applied. Each disbursed tranche is repayable in full on its final maturity date. No principle repayment was due within the report period.

Table 2.B: Payments received by HM Treasury

Interest Payment Date	Interest Amount Received
15 December 2011	£3,210,221

2.5 In 2011, the Chancellor of the Exchequer took the decision to lower the interest rate on the bilateral loan to Ireland. Treasury has in principle agreed the new, lower interest rate, which will represent the UK's cost of funding plus a small service fee of 0.18 per cent. The UK's cost of funding for this purpose is defined as the average yield on gilt issuance in the six months prior to the disbursement of a tranche. This is subject to the loan agreement being revised to reflect the changes. The new interest rate will then apply retrospectively to those tranches of the loan that have already been disbursed.

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